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Revenue Fluctuations for Newspaper Publishers

by Allison Bone

Service Industries Division
10th Floor, Jean Talon Building, Ottawa, K1A 0T6

Telephone: 613-951-0410

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How to obtain more information:
Telephone: 613-951-0410
Fax: 613-951-6696
E-Mail inquiries: servicesind@statcan.ca

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Revenue Fluctuations for Newspaper Publishers
By Allison Bone, Services Industries Division

Informing Canadians daily

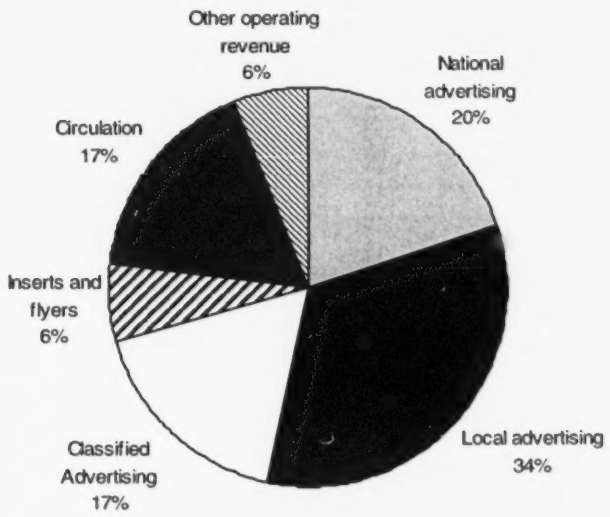
Every day millions of Canadians turn to one of the hundreds of newspapers available in Canada to get an update on what is happening in the world, the country and their community. The newspaper has been a valuable source of information for Canadians since the first Canadian newspaper was published in 1752. This article will focus on sources of revenue for the Canadian newspaper publishing industry. Specifically, it will look at how the industry's advertising revenue has been affected by economic conditions since 1975. In addition, it will look at circulation revenue during this thirty year time period[1].

Newspaper publishers depend on advertising revenues

When papers were first published in Canada, they often relied solely on government patronage for revenues[2]. However, as time passed commercial advertising and classified ads increasingly filled the pages.

In 2005 the industry earned over two-thirds of its operating revenues from advertising (see Figure 1). Revenues from circulation, distribution of flyers and inserts[3], and custom printing accounted for the remaining revenues. Because of this reliance upon advertising, publishers have had to find new ways to compete with other media sources such as television and the Internet for the attention of readers, and consequently for advertisers.

Figure 1 Sources of operating revenue in 2005



Source: Annual Survey of Newspaper Publishers (2005).

1. See note at the end of article for more detail on these surveys.
2. The Evolution of Newspapers, *Ultimate Guide to Canadian Newspapers* www.cna-acj.ca/Client/cna/cna.nsf/web/FactsHistory?Open Document&nLoc=5.9
3. Beginning in 2005, Statistics Canada began to classify revenues earned from the distribution of flyers and inserts as advertising revenues.

Advertising revenues fluctuate with economic conditions

Advertising revenues typically fluctuate with the well being of the economy. More often than not if the economy is thriving then the industry's advertising revenues will rise. Conversely, if the economy is experiencing a growth slowdown, the industry often has lower or negative growth in advertising revenues.

From the period of 1975 to 2005, there were two recessions as well as two economic slowdowns, all varying in severity. Advertising revenues for the newspaper industry tended to be negatively affected once economic conditions deteriorated.

The first of the two recessions was in 1981 to 1982[4]. After having grown an average of 12% per year from 1975 to 1981, advertising revenues increased by only 1% in 1982 and 6% in 1983. Conversely, when the economy was recovering in 1984, advertising revenues rose by 12%.

The industry had a much more difficult time recovering from the recession of the early 1990s. From 1991 to 1994 advertising revenues decreased by 12% and although the economy started to recover in 1993, advertising revenues for the industry did not rebound to 1990 levels until 1997 (see Figure 2).

Less severe than outright recessions, there were also two slowdowns between 1975 and 2005. The first minor slowdown occurred in 1986, a result of high interest rates and a collapse in energy prices[5]. The newspaper industry however continued to see growth in advertising revenues during this time, albeit at a slower rate than prior years.

In 2001, the economy experienced a slowdown in growth following the high tech boom of the late 1990s. Advertising revenues for the newspaper publishing industry contracted by 3% in 2002, before quickly recovering in the following years.

4. "Alternative Measures of Business Cycles in Canada: 1947-1992" Philip Cross, Canadian Economic Observer, Catalogue no. 11-010-XPB, February 1996
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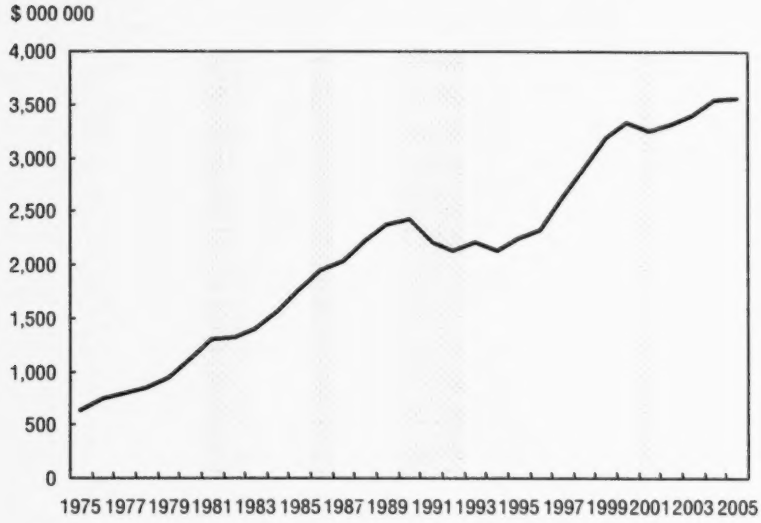
Figure 2 Newspaper advertising revenue, 1975 to 2005



Sources: Annual Survey of Printing, Publishing and Allied Industries, Statistics Canada Catalogue no. 36-203 (1975 to 1983); Annual Survey of Printing, Publishing and Allied industries, Statistics Canada Catalogue no. 36-251 (1984 to 1997); Annual Survey of Newspaper Publishers (1998 to 2005).

Effects of recessions on local advertising unclear

Newspaper publishers derive their advertising revenues from different types of advertising such as local, national, and classified advertisements[6]. The three types of advertising all reacted differently to the two recessions (Figure 3). National advertising, which made up just over 35% of advertising revenues for daily newspapers and about 9% for community newspapers in 2005, is more affected by slowdowns in the economy than local advertising, whose behaviour differed between the two recessions.

National advertisers tend to scale back their advertising spending in response to recessionary economic conditions. The recession of the early 1980s triggered declines in national advertising revenues in 1982 and 1983. Similarly, the 1990 to 1992 recession caused these revenues to decline in each year from 1990 to 1993. This type of advertising did not see an increase of revenues again until 1994, a year after the economy started to see higher growth.

Advertising revenues from classifieds behaved in a similar way to national advertising. This revenue was affected by the recession of the early 1980s, however it only dropped in 1982, whereas national advertising fell for two consecutive years. And, during the recession of the early 1990s, classified advertising followed the same pattern as national advertising, declining from 1990 to 1993 before rebounding in 1994.

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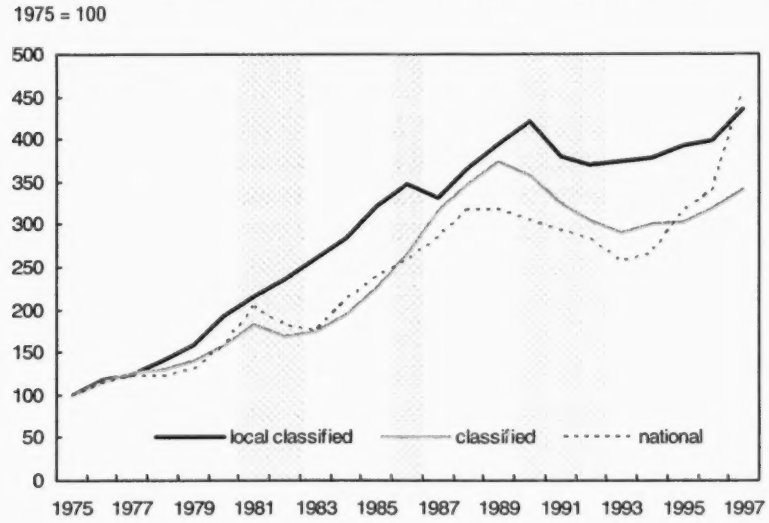
6. Local advertising represents advertising revenue from businesses such as department stores, restaurants, specialty stores, supermarkets, and other service providers found in the community. National advertising is the advertising of products and services either nationally or regionally. These ads are most frequently placed by advertising agencies, and convey the message of the manufacturer or distributor. Classified advertising includes advertisements for jobs, housing, used cars, etc. Source: Profile of the Canadian Daily Newspaper Industry, Canadian Newspaper Association, www.cna-acj.ca/Client/CNA/cna.nsf/object/Profile2006/$file/CNA%20English%20Profile.pdf

While both national and classified advertising revenues decreased in both recessions, the effect of recessions on advertising revenues from local sources is less clear. Unlike national and classified advertising revenues, local advertising revenues continued to increase during the 1981 to 82 recession. However, local advertising revenues did indeed decline during the recession of the early 1990s, and did not recover to pre-recession levels until 1997.

Figure 3 Local, national and classified advertising revenues (Index 1975 = 100)



Sources: Annual Survey of Printing, Publishing and Allied Industries Statistics Canada Catalogue no. 36-203 (1975 to 1983); Annual Survey of Printing, Publishing and Allied industries Statistics Canada Catalogue no. 36-251 (1984 to 1997).
Note: Results are not shown from 1998 onwards because comparable data were not gathered from 1998 to 2004.

As a proportion of overall advertising revenues, national advertising revenues have become more important to newspaper publishers, particularly in the past decade (Table 1). The growth of large retailers, who are likelier to operate and advertise nationally may have contributed to this increase.

Table 1 Proportions of advertising revenues by type of advertising, 10 year intervals, 1975 to 2005

	National	Local	Classified
	%		
1975	22	53	25
1985	19	61	20
1995	20	59	21
2005	28	47	25

Although advertising generates over two-thirds of operating revenues for the industry, the competition for advertising dollars has become more intense from other sources such as

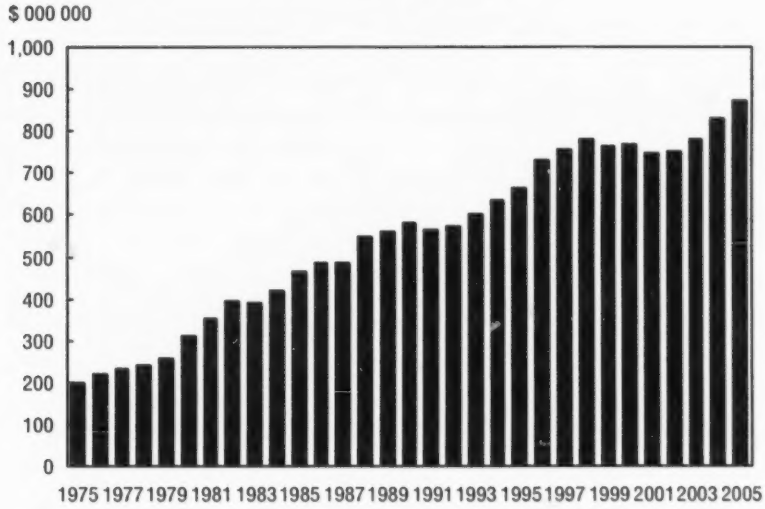
television, the Internet, billboards and other forms of media. Newspaper publishers have had to find new ways, such as developing their own Internet sites and free commuter dailies, to attract advertising dollars. Moreover they need to convince advertisers that the readership for their papers is strong.

Circulation revenue is growing at a slower rate

Circulation revenue is the second largest source of revenue for publishers, making up 17% of their operating revenue. Over time, circulation revenue has shown slower growth than advertising revenue. Although the circulation revenue from sales of newspapers has more than quadrupled from 1975 to 2005, this was less than the five-and-a-half fold increase recorded for advertising revenue. To put this in context, for every dollar of advertising revenue generated in 1975, the industry earned 31 cents in circulation revenue. By 2005 this had fallen to 24 cents for every advertising dollar.

Moreover, the rate of growth of circulation revenues has declined even further in recent years (Figure 4). While circulation revenues grew by an average of 8% per year from 1975 to 1990, they rose by an average of only 3% per year from 1991 to 2005, despite an upturn from 2003 onwards[7].

Figure 4: Circulation revenue, 1975 to 2005

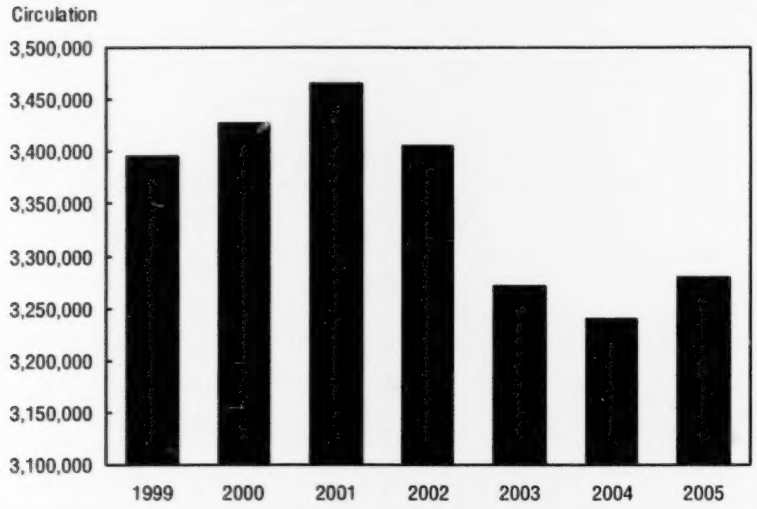


Sources: Annual Survey of Printing, Publishing and Allied Industries Statistics Canada Catalogue no. 36-203 (1975 to 1983); Annual Survey of Printing, Publishing and Allied industries Statistics Canada Catalogue no. 36-251 (1984 to 1997); Annual Survey of Newspaper Publishers (1998 to 2005).

The smaller growth in circulation revenue is partially a result of declining circulation numbers among the top 20 newspapers in Canada. The number of papers in circulation for Canada's largest 20 papers, has declined by just over 3% from 1999 to 2005, which goes a long way towards explaining weak growth in newspaper circulation revenues (Figure 5).

7. This upturn is partially a result of a number of newspaper publishers who switched from reporting circulation revenues net of distribution expenses, to reporting full circulation revenues and higher distribution expenses.

Figure 5 Total circulation for selected paid dailies[8], 1998 to 2005



Source: ***Canadian Advertising Rates and Data***, Rogers Media, January Issues, 1999 to 2005.

In addition to increased competition, the industry faces changing habits of newspaper readers. According to a recent Statistics Canada study[9], roughly one-third of Canadian households used the Internet as a source for news in 2003, compared to one-fifth in 2000. This study also indicates that average household spending on newspapers has decreased since 1999 when households spent an average of $108 per year on newspapers compared to $99 in 2004.

Conclusion

Newspaper publishers benefit from a robust economy because there is a link between economic growth and the industry's revenue growth, particularly revenues from advertising.

While the competition for advertising dollars has increased with the growing popularity of television and the Internet, newspapers have found ways to maintain their revenues by having on-line editions of their newspapers and by conducting promotional campaigns to increase readership. The challenge for publishers today is to maintain their advertising market share by ensuring that the papers are read by future generations, despite the technological innovations that have drawn readers away from the traditional newspaper.

8. The paid daily newspapers selected here include the top 20 papers in Canada according to circulation numbers in January 2005 (using CARD). These same newspapers were then tracked back to 1998.
9. Dugas, Erika. What Canadian households spend on culture goods and services, Statistics Canada Catalogue no. 87-004-XWE, Vol 15, no. 4.

Note on data sources

The data for this article are from two sources. From 1975 to 1997 the data came from the Annual Survey of Printing, Publishing, and Allied Industries. From 1998 to 2005, the data came from the Annual Survey of Newspaper Publishers. While the two surveys are different, it is important to note that the data are comparable.

Prior to 1997, the industry classification system used for the Annual Survey of Printing, Publishing, and Allied Industries was the Standard Industrial Classification (SIC) 1980. The SIC codes were 2838 – Other Publishing Industries and 2841 – Newspapers, Magazines and Periodicals. After 1997, the North American Industry Classification System (NAICS) was adopted for the Annual Survey of Newspaper Publishers. The survey covers the NAICS code 511110. Despite the differences in the industry classifications between the two surveys, the data are comparable because prior to 1997, the questionnaire asked respondents to separate their newspaper publishing from their other publishing.

The frames for the surveys were from the same source, the Business Register at Statistics Canada. The companies sampled represented the top 95% of the revenues earned by the industry in both surveys.

The main difference between the two surveys was the questionnaire. For the Annual Survey of Printing, Publishing and Allied Industries, the questionnaire included questions on the printing industry as well as publishing, other than strictly newspaper publishing. In addition, there were two versions of the questionnaire – a long and short version.

The long version was sent to 25% of the firms. These firms included the large firms in the industry and firms where it was not possible to use administrative data. The large firms represented approximately 90% of the industry. The remaining 75% of the firms received the short version of the questionnaire. The short version of the questionnaire asks questions about the income statement only, and about commodity detail (i.e. a breakdown of revenues into advertising and circulation, etc) every three years (the company also has the option of returning a copy of their income statement). For the remaining 2 years, administrative data are used to estimate total revenue and to estimate expenses. The first year of data are used to estimate the commodity detail for the other 2 years. This was done to reduce response burden, as these firms did not represent a large portion of the overall industry estimates.

For the Annual Survey of Newspaper Publishers, the questionnaire is only for newspaper publishers, and the complete questionnaire is sent to the companies representing the top 95% of the industry's income every year. The remaining 5% of industry revenues is calculated using administrative data.

For more detail on concepts and definitions see Statistics Canada Catalogue no. 31-528 (for 1975 to 1997) and www.statcan.ca, Definitions, data sources and methods, Annual Survey of Service Industries: Newspaper Publishers (for 1998 to 2005).